

SPECIAL COUNCIL MEETING

DECEMBER 17, 2013

The Special Council Meeting of the Council of the County of Kaua'i was called to order by the Council Chair Jay Furfaro at the Council Chambers, 4396 Rice Street, Room 201, Lihu'e, Kaua'i, on Tuesday, December 17, 2013 at 9:02 a.m., after which the following members answered the call of the roll:

Honorable Tim Bynum
Honorable Mason K. Chock, Sr.
Honorable Gary L. Hooser
Honorable JoAnn A. Yukimura (*present at 9:26 a.m.*)
Honorable Jay Furfaro

Excused: Honorable Ross Kagawa
Honorable Mel Rapozo

Chair Furfaro: In the E-mail from Councilmember Yukimura, she mentioned that she might be joining us within forty-five (45) minutes to one (1) hour. On that note, may I ask for an approval of the agenda?

APPROVAL OF AGENDA.

Mr. Hooser moved for approval of the agenda as circulated, seconded by Mr. Chock, and carried by a vote of 4:0:3 (*Mr. Kagawa and Mr. Rapozo were excused, Ms. Yukimura was not present*).

Chair Furfaro: Thank you. Under Council Rule 13(e), is there a member from the public who wishes to speak before we go into the presentation?

PUBLIC COMMENT.

Pursuant to Council Rule 13(e), members of the public shall be allowed a total of eighteen (18) minutes on a first come, first served basis to speak on any agenda item. Each speaker shall be limited to three (3) minutes at the discretion of the Chair to discuss the agenda item and shall not be allowed additional time to speak during the meeting. This rule is designed to accommodate those who cannot be present throughout the meeting to speak when the agenda items are heard. After the conclusion of the eighteen (18) minutes, other members of the public shall be allowed to speak pursuant to Council Rule 12(e).

Chair Furfaro: Seeing no one, let us move onto the item for today.

COMMUNICATION:

C 2013-377 Communication (12/04/2013) from Council Chair Furfaro, requesting the presence of the County Auditor, Director of Finance, and representatives from N&K CPAs, Inc., for discussion relating to the Comprehensive

Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2013: Mr. Hooser moved to receive C 2013-377 for the record, seconded by Mr. Chock.

Chair Furfaro: I am going to suspend the rules and bring the contracted auditors up if I can. Please note that we have Mr. Barreira, Mr. Hunt, and Mr. Pasion in the audience. Come right up gentlemen.

There being no objections, the rules were suspended.

BLAKE ISOBE, N&K CPAs, Inc.: Good morning Chair and good morning Council. I am Blake Isobe from N&K CPAs. I am the Principal on the audit for the County. This is John Bautista. He was the Senior Manager and in charge of field work here for the audit.

Chair Furfaro: I have a couple of housekeeping notes that I shared with the group before we started. I would like to make sure that the Council uses the final report, not the draft report. There may be some differences in page numbers. If you have your final report that was distributed, I would like to make sure we reference the final report versus the draft. Secondly, I would like to make note that I had given opportunities to collect some questions, but in fact, I only sent out a memorandum statement from the draft report. I hope you were able to get copies. These were my comments as it relates to the draft report. I would also like to point out that it is my plan to let the auditors do the presentation of the audit findings. I would then like to follow the same format Council did six (6) years ago when I was the Finance Committee Chair, and make notes of procedural pieces. For the Administration, we will follow-up with future agenda items for the areas that we need to have some discussion on. In particular, I say that because we are going to need to have quite of bit of dialogue as we set-aside three hundred eighty-five thousand dollars (\$385,000) to computerize our payroll, which was two (2) years, and we still have not done it. It still shows up as an audit issue. We will probably have a future meeting on the project status of the payroll benefits and liability exposure when it comes to all of those Departments, in particular, mostly concerned with Police, Fire, Public Works, and Parks; the big Departments. For the smaller Departments, we have some of our own input here at the Council level, but procedurally, it is exactly the same. I think it is three hundred eighty-five thousand dollars (\$385,000) that we have set-aside. On that note, those were just some housekeeping items for the group. Thank you.

Mr. Isobe: From our audit, we issued three (3) separate reports. The first one is the "Comprehensive Annual Financial Report" (CAFR) which is the CAFR. It is pretty much the financial statements and the big one, the one hundred seventy page report, or so. We issued the "Single Audit Report." This is required because the County has Federal funds and it is required to submit this report to the Feds as it relates to any findings on their Federal awards. The last report that we issued is this "Management Advisory Report." This report is an optional report that is a by-product of the audit. It is just a way for the auditors to communicate any other findings that we may have come across that could help the County improve processes. We will cover some of our comments in this report.

We will start off with the CAFR. Turn to page number eight of the report. The County has received their twentieth consecutive "Certificate of Achievement for Excellence in Financial Reporting," which is issued by the Government Finance Officers Association (GFOA). A couple of the main requirements for getting this certificate is that they report in accordance with the Government Accounting

Standards Board (GASB). They also need to submit this CAFR by December 31st. Hopefully, this will be the twenty-first CAFR that receives the certificate.

The next section is the Introduction Section and the Management's Discussion and Analysis (MD&A). Those are the transmittal from the Director of Finance, along with some commentary on the CAFR itself. The main thing that you guys are probably concerned about that comes from us starts on page number eleven. This is our Independent Auditors' Report. This report looks a little different than it did in the prior years. Each paragraph is headed up to allow the users to identify the different elements of our report. It spells out what management's responsibilities are and what the auditors' responsibilities are. Most importantly on page number twelve is our opinion on the financial statements. That opinion's paragraph states that the financial statements are fairly presented, in our opinion, in accordance with Generally Accepted Accounting Principles (GAAP) and that it is an unqualified or clean opinion.

The next section of the CAFR is the Government-Wide Financial Statements. It starts on page number twenty-five. This statement used to be called "The Statement of Net Assets." The County implemented a new GASB this year, "GASB 63," which was required to be implemented this year. One of the subtle changes was that it changed the name of the statement. Something to point out here is that your total assets are about eight hundred seventeen million dollars (\$817,000,000), which is down about eleven million dollars (\$11,000,000). One of the large changes is that you added thirty-two million one hundred thousand dollars (\$32,100,000) of Capital Assets, net of depreciation of about nineteen million seven hundred thousand dollars (\$19,700,000), and depreciation. On the liability side, the big change there is your Noncurrent Liabilities. You are looking at one hundred ninety-six million dollars (\$196,000,000) in long-term liabilities compared to about one hundred eighty-four million dollars (\$184,000,000) in the prior year. For some of those larger changes, we can go over and feature slides. The other sections; Fund Financial Statements, Notes to the Financial Statements, Other Supplementary Information, and your statistical sections are all required sections that are required in the CAFR in order for it to be in accordance with GASB.

Turning to page number twenty-six is your Statement of Activities. This pretty much shows your revenue and expenses of the County. The largest revenue of the County is your Real Property Taxes. There has been a slight increase of about one million one hundred thousand dollars (\$1,100,000) in your Real Property Tax revenues. The main increase here is when you are looking at the assessed values and rates, it remained pretty consistent for Fiscal Year 2013. I know you did some changes for Fiscal Year 2014, but the changes here... if you recall in the past two (2) years, you guys had a lot of appeals or assessments of appeal or in Board of Review. There were a lot of them that was settled during Fiscal Year 2013. We ended Fiscal Year 2012 with about four million two hundred thousand dollars (\$4,200,000) in that Real Property Tax Trust, which are those amounts that are in appeal and close Fiscal Year 2013 with about nine hundred thousand dollars (\$900,000) left on appeal. Capital Grants and Contributions— there is an increase there in the amount that is shown as revenues. The prior year was about fifteen million eight hundred thousand dollars (\$15,800,000). This year, you guys are looking at about nineteen million six hundred thousand dollars (\$19,600,000). The revenues there are kind of driven by expending your Capital Grants. The big one was the bike path. I think we can cover that later in the use of the Federal awards.

Chair Furfaro:

You have that in your presentation?

Mr. Isobe: Yes.

Chair Furfaro: Okay. Thank you.

Mr. Isobe: If you look at your Total General Revenues and Transfers, it is about one hundred ten million dollars (\$110,000,000). In the prior year, it was about one hundred six million dollars (\$106,000,000), so there is an increase of about four million dollars (\$4,000,000). That increase is primarily due to a lower amount of transfers from governmental activities to your business activities. This year it is only about six hundred thousand dollars (\$600,000).

This slide gives you an idea of your historic five (5) year trend on your revenues. If you notice here, Real Property Tax revenues actually crept up a little, but it was much higher in 2009 and 2010. It is coming back. Your Transient Accommodations Tax (TAT) is going to remain flat since it has been capped, so that number is stagnant right now. Your total revenues all the way on the right and you can see that slight increase in total revenues.

On the expense side, your General government expenses increased about four million one hundred thousand dollars (\$4,100,000). Its total is about thirty-six million nine hundred thousand dollars (\$36,900,000) this year. There are also large increases in your Sanitation expense of about a three million five hundred thousand dollar (\$3,500,000) increase. The last one, your increase in Public Welfare, is about two million two hundred thousand dollars (\$2,200,000). The primary cause for your increase in your General government expense is your claims and judgments which increased about two million nine hundred thousand dollars (\$2,900,000). That liability increased about two million nine hundred thousand dollars (\$2,900,000) and that gets charged to the General government expense. I think I will cover that on the next slide.

Chair Furfaro: Can I go back? I just want to get some clarity. The thirteen million seven hundred thousand dollars (\$13,700,000) is inclusive of the nine million eight hundred thousand dollars (\$9,800,000) that you summarized here?

Mr. Isobe: Yes.

Chair Furfaro: Thank you.

Mr. Isobe: The other reason for a large increase in expenses is about an eight million eight hundred thousand dollar (\$8,800,000) increase in your landfill closure and post-closure costs, which is recorded in your Sanitation figure. For Public Welfare, there was about a two million two hundred thousand dollar (\$2,200,000) increase. That increase was due to some acquisition for the Līhu'e Elderly House. It occurred in the Bond Fund, but that property is going to be held in the Housing Revolving Fund, which is an Enterprise Fund, so it is made as a contribution out to the business-type funds or your Enterprise Funds.

Chair Furfaro: Excuse me. For lack of a better term, the eight million eight hundred thousand dollars (\$8,800,000) that we show as closure and post-closure costs for the landfill... to some degree, that is going into, for lack of any other term, like an escrow account or holding account for the future? How do you narrate the future in this post-closure cost piece?

Mr. Isobe: For the landfill closure and post-closure costs, what happens is the estimated closure costs plus the post-closure costs needs to be estimated. I believe Waste Management has that estimated cost to close it. What caused part of the increase is just the cost to close the landfill, that estimated increased four million dollars (\$4,000,000) this year, along with the increased capacity. As the landfill gets fuller and fuller, a larger percentage of that estimate closure cost gets recorded as a liability. That is just a liability. It is not a reserve of anything. It is just the amount that needs to be booked as a liability on the County's books. Along with that, there was a five million dollar (\$5,000,000) gas collection system that needed to be added to the landfill. That is also included in that liability. A portion of that ninety-five percent (95%) increase in the liability has to be approved as part of the landfill liability.

Chair Furfaro:

Our contractor would have that detail?

Mr. Isobe: Yes. Public Works will. Back up to the claims and judgments, if you look at page number eighty-three— it starts on page number eighty-three and goes on to page number eighty-four; this is a summary of how your liability has been growing for your claims and judgments. If you look at the beginning of 2012, you are at about seven million six hundred thousand dollars (\$7,600,000) and you began 2013 with about nine million eight hundred thousand dollars (\$9,800,000). A large part of that increase last year was that disclosure that is right below it, which is Puhi Metals. This current year, that estimate increased again another eight hundred thousand dollars (\$800,000)— that is part of the reason for the increase of your claims and judgments, along with other new claims that are sitting within that liability. Back to page number twenty-eight, this is a historic look at your overall Fund Balance.

For Fiscal Year 2013, your General Fund ends with about thirty-three million six hundred twenty thousand dollars (\$33,620,000) in Fund Balance and your Other Governmental Funds total about one hundred one million eight hundred twenty thousand dollars (\$101,820,000) in Fund Balance with a total of about one hundred thirty-five million four hundred forty thousand dollars (\$135,440,000). Looking at the funds individually, if you look at the large variances, the Bond Fund decreased about forty-eight million two hundred thousand dollars (\$48,200,000) in Fund Balance. Last year, it was about fifty-seven million five hundred thousand dollars (\$57,500,000), so about an eight million dollar (\$8,000,000) to nine million dollar (\$9,000,000) decrease. A lot of that decrease is due to spending that Bond Fund. If you guys have projects going on that are using up the funds that are sitting in there, some of those major projects that occurred— if you want to see all the projects in your Bond Fund, they are on page number one hundred nineteen to page number one hundred twenty-one. The big ones there are the Līhu'e Eldery House, which expended about two million three hundred thousand dollars (\$2,300,000); the Kapa'a Baseyard with about two million dollars (\$2,000,000); and Kōke'e Road, which was another eight hundred fifty-six thousand dollars (\$856,000). Those are the larger ones. You guys have a lot of activity in the Bond Fund and a lot of authorized projects. Page number one hundred twenty-one shows the balance of the Bond Fund projects of about thirty-eight million six hundred thousand dollars (\$38,600,000). I think as you complete these projects, work on these projects, and spend money on these projects; the Bond Fund balance will continue to decrease. That is just the nature of the funds and projects that are in there and the use of that fund.

Chair Furfaro: It is fair to say that the peak of the Bond Fund was about sixty million dollars (\$60,000,000), so if I took out the thirty-three million dollars (\$33,000,000), we have completed about twenty-seven million dollars (\$27,000,000) of what we presented to the Bond Council for our borrowing. We have completed about twenty-seven million dollars (\$27,000,000) of what we said we would. That is another way to look at it, right?

Mr. Isobe: Yes. There is about ten million five hundred thousand dollars (\$10,500,000) spent this year on these projects. The other major change in your Fund Balance was in your General Fund. It is a decrease of about... last year was about forty-four million seven hundred thousand dollars (\$44,700,000). We are looking at about thirty-three million six hundred thousand dollars (\$33,600,000)... about eleven million one hundred thousand dollars (\$11,100,000). If you look on page thirty (30), which is the Statement of Revenues and Expenditures for that General Fund, I think Chair Furfaro had pointed out that decrease. The change of Fund Balance was about eleven million dollars (\$11,000,000), but a lot of that decrease was above thirteen million three hundred thousand dollars (\$13,300,000) in net transfers in and out. A bunch of that transfers out, about nine million seven hundred thousand dollars (\$9,700,000), went to the Debt Service Fund to fund your Debt Service. The other changes are in "Other Governmental Funds." The County prepares statements on those and those are in the back and kind of roll out into Other Governmental Funds. It is back on page ninety-four (94) if you want to see these different funds, but there was a decrease of about one million eight hundred thousand dollars (\$1,800,000) in your Highway Capital Improvement Project (CIP), similar to your Bond Fund. As funds get spent on projects in the Highway Fund, your Fund Balance will decrease there. There is an increase in the Fund Balance of about one million six hundred thousand dollars (\$1,600,000) in your Highway Fund. That fund itself receives almost twelve million nine hundred thousand dollars (\$12,900,000), almost thirteen million dollars (\$13,000,000), in revenues primarily from your Fuel Tax, Public Franchise Tax, and your Motor Vehicle Weight Tax. That fund gets some revenues and the expenditures on that fund is only about eleven million three hundred thousand dollars (\$11,300,000). That net amount is increased in your Fund Balance and your Highway Fund. Your Debt Service Fund that increased about two million three hundred thousand dollars (\$2,300,000) is just the excess amount that was transferred to Service Debt. I believe in Fiscal Year 2014, some of those bonds that you guys took out, primarily the Build America Bonds (BABs), is going to start requiring Debt Service this year, principle payments. The County has just been paying interest for the past couple of years. Those were the main highlights we had on the CAFR itself. I want to move on to the Single Audit Report.

Chair Furfaro: Before you go to the Single Audit Report, let me ask members if they have any questions regarding the CAFR.

Mr. Isobe: Sure.

Chair Furfaro: If not, we will just move on. Do you have a CAFR question? Go for it.

Mr. Bynum: You mentioned the increase in the Highway Fund. Maybe this is a question for Finance about... this is the year we started tightening up the overages in the outlined funds, right? We are keeping less variance in there. In the Highway Fund, we already have a lot of it committed or assigned, right? This is a question for Finance later.

Mr. Isobe: Okay.

Mr. Bynum: It is not really a CAFR question. Thank you.

Chair Furfaro: Again, I want to remind members that this year, if we are going to have discussion with Departments about their booking, CIP schedules, and so forth, we will put it on as a separate agenda item too.

Mr. Bynum: Okay.

Chair Furfaro: Are there any CAFR questions for the auditors? Go ahead, JoAnn.

Ms. Yukimura: Good morning. My apologies for being late.

Mr. Isobe: Good morning.

Ms. Yukimura: On your last slide, which was up when I came in, Other Government Funds increased by two million one hundred twenty-five thousand dollars (\$2,125,000)...

Mr. Isobe: Yes. That is on page number twenty-eight.

Ms. Yukimura: Okay.

Mr. Isobe: That Other Governmental Funds column is a combination of all your non-major funds. It is a lot of your smaller funds all combined into that. The larger variances for those three (3) that you had pointed out, which combined to about that two million one hundred fifty-eight thousand dollar (\$2,158,000) increase...

Ms. Yukimura: Okay. Other Governmental Funds includes the Highways Fund?

Mr. Isobe: Yes.

Ms. Yukimura: Do you have a list of all the funds that are included in Other Governmental Funds?

Mr. Isobe: Yes. Your combining balance sheet for your non-major governmental funds start on page number ninety-four number and go to page number ninety-five. These are your Special Revenue Funds, Debt Service Fund, and Capital Project Funds. They all roll-up to your total.

Ms. Yukimura: Okay. You said decreases in Highway CIP, increases in the Highway Fund... when you say increase in highway, that means we increased the Highway Fund?

Mr. Isobe: Well, the net increase in your Fund Balance was due to excess revenues over expenditures. You collected almost thirteen million dollars (\$13,000,000) in revenues, primarily from the Fuel Tax, Public Franchise Tax, and Motor Vehicle Weight Tax, which are about the majority of your revenues there. The expenditures were only about eleven million three hundred thousand

dollars (\$11,300,000) or so, which you have excess revenues of about one million six hundred eighty thousand dollars (\$1,680,000), and that closes into your Fund Balance, so that is primarily why you have an increase in Highways.

Chair Furfaro: At that point, you are aware that Public Works is now lagging every two (2) years on the road resurfacing. Are you aware of that?

Mr. Isobe: No.

Chair Furfaro: I am just adding to JoAnn's conversation.

Ms. Yukimura: No, that is very important information.

Chair Furfaro: The expenses are lagging with two (2) year increments.

Ms. Yukimura: What is going through my mind is that there was a really urgent need for a Transportation Planner in our Transportation Agency because we have this huge goal of increasing bus ridership by one thousand percent (1,000%) over the next twenty (20) years, but it is all part of a plan to handle our highway problems like congestion, the high cost of oil to our citizens, and so forth. With that excess, we could have taken fifty thousand dollars (\$50,000) last year and had this position on for one (1) year, doing the kind of work that we need to do which includes leveraging Federal moneys, but we did not thinking that we would not have that money to spend. On the other hand, as the Chair points out, our Roads Division put off to this coming budget, their report based on their MicroPAVER and their assessment of all the County roads... their report to us about the long-term needs and preventive maintenance. We know there is a big bill somewhere coming up and have not yet seen. I am just trying to understand. What did you say was the overage in Highway?

Mr. Isobe: About one million six hundred thousand dollars (\$1,600,000).

Ms. Yukimura: Okay. I think we could have spent fifty thousand dollars (\$50,000) to increase our... and our failure to spend up to what we allocated or budgeted— do we know what caused that?

Mr. Isobe: I would not have that answer for you.

Ms. Yukimura: Okay. Maybe we will ask Finance.

Chair Furfaro: I want to make sure we understand that the audit report today is to understand the numbers. We are going to, as I stated... I am sorry JoAnn, I should have made it clearer to you, but we are going to put these special items back on other agenda items so that we can deal with the philosophy tied to how the work is done versus the accountability of how we are spending the money.

Ms. Yukimura: Thank you.

Chair Furfaro: Okay. Mr. Bynum, you have the floor.

Mr. Bynum: I want to follow-up on something. Earlier, I was going to ask a question about the Highway Fund and I did not ask it because I realized that it really was a policy question that you guys are not interested in. The Chair gave the answer that we are committed to doing road repaving differently and more robustly, and part of that plan is to not do it every year. It makes sense from a policy perspective that those funds are up for one (1) year. I want us to stay, as the Chair mentioned, on the CAFR issues because you do not really know the policy issues behind this.

Chair Furfaro: I think I just stated that.

Mr. Bynum: Yes. Thank you.

Chair Furfaro: Save your policy questions for when we have Department Heads come back, but we are still on the CAFR. Do you have questions?

Mr. Bynum: No, I am done. Thank you.

Chair Furfaro: Anyone else on the CAFR? Thank you very much.

Mr. Isobe: Okay. Moving on to the Single Audit Report. The Single Audit Report, as I had said earlier, is required for the County primarily because you guys have a lot of Federal moneys coming in for different programs. Similar to the CAFR, on page number six, is our Independent Auditors' Report on financial reporting, Internal Control Over Financial Reporting. I will kind of touch on the fact that on page number seven, we do still have one significant deficiency in internal controls over financial reporting. In a couple of slides, we will go over the summary of the results and we can kind of compare how the County has made some progress in the findings that we have reported in the prior years and what is sitting here in the current year. On page number nine is another Independent Auditors' Report and this is on compliance with the major programs and internal control over those major programs. This is in compliance with the "A-133" or the "Single Audit Act." On page number ten is our opinion on that on compliance. In our opinion, the County complied in all material respects with the compliance requirements on these Federal programs, so we do not have any findings to report here. It is an unqualified or clean opinion on compliance.

Chair Furfaro: Overall, it is a very nice opinion.

Mr. Isobe: Thank you. On page number twelve, this is the start of your Schedule of Expenditures of Federal Awards. These list out all of your grants that you are getting from the Feds. I wanted to point out a couple of changes here. If you turn to the total on page number twenty-four, the total of the current year for Federal expenditures are about thirty million nine hundred thousand dollars (\$30,900,000). Sorry, I will let you guys get there.

Chair Furfaro: Yes, please let us get to page number twenty-four.

Mr. Isobe: Yes.

Chair Furfaro: Go ahead.

Mr. Isobe: Okay. Total current year Federal expenditures were about thirty million nine hundred thousand dollars (\$30,900,000) this year. That is up about four million three hundred thousand dollars (\$4,300,000) from the prior year. Last year was about twenty million six hundred sixty thousand dollars (\$20,660,000). The large changes here were in 2012 when you guys spent about six million three hundred thousand dollars (\$6,300,000) of the State Clean Water... these are the Revolving Loan Funds. In the current year, there is only about two million seven hundred thousand dollars (\$2,700,000) spent. For the Housing and Urban Development (HUD) programs, there was a net decrease of about four hundred thousand dollars (\$400,000). The large increase is in your Transportation grants where you spent about nine million six hundred thousand dollars (\$9,600,000) in the current year. Those large increases—the bike path was about six million one hundred thousand dollars (\$6,100,000) and Kōke'e Road Resurfacing, which is about three million five hundred thousand dollars (\$3,500,000). A lot of other programs kind of stayed consistent. These are the larger fluctuations and the programs.

On page number twenty-eight of our report, this is a Summary of the Auditors' Results. This pretty much summarizes the overall audit that we performed. As we went over on the CAFR, we issued an unqualified opinion of the financial statements. That first line, "Internal control over financial reporting: Material weakness(es) identified?" This year it is "no." We did not identify any material weaknesses. In the prior year, we had three (3). "Significant deficiency(ies) identified?" This year it is "yes." It is still that one recurring that we had in the prior year. "Noncompliance material to financial statements noted?" "No," there were none.

The next section is the Federal Awards, so these are your Federal programs that we kind of were talking about. For the material weaknesses over your Federal major programs is "no" this year; "none." Last year there were three (3). "Significant deficiency(ies) identified?" There were none this year and none in the prior year. We did issue an unqualified opinion on compliance. Other audit findings required to be disclosed and in compliance with Office of Management and Budget (OMB) Circular and A-133... this year it is none. In the prior year, we did have three (3). There was big improvement on resolving a lot of these findings that we did come up with. We identified the programs that we audited as major programs. For the current year, there are six (6) major programs. In the prior year, we did nine (9). That was just based on the assessments that need to be made to determine which programs we need to do. The six (6) we did this year we have done in the prior year. There were no new programs that we needed to look at, primarily because a lot of the grants kind of stayed similar. The last thing on the bottom that you guys might probably have questions on is "Auditee qualified as a low-risk auditee?" This year it is "no." This is primarily due to the fact that we did have material weaknesses in the prior year. That is one of the primary causes of not qualifying as a low-risk auditee, but based on this year without having the material weaknesses and having the unqualified opinion, you need two (2) years straight of that in order to qualify. Next year, you still will not qualify as a low-risk auditee for 2014. As long as there are no material weaknesses, 2015 could possibly be a low-risk auditee.

Chair Furfaro: You guys kind of operate like auto insurance where you have to go two (2) years without an accident. We have one (1) year under our belt. Okay.

Mr. Isobe:

Yes.

Chair Furfaro:

I was supposed to lighten things up.

Mr. Isobe: Okay. Turning to page number twenty-nine— sorry, let me go over the differences. The material weaknesses is pretty much when there are deficiencies in internal control that are not going to prevent or detect either on the financial statement side of material misstatement or on the compliance side, material noncompliance. When we do have those findings, a lot of times we have to consider how severe it is and that is when we determine whether it is a material weakness. If it is not as severe, it would just be a significant deficiency. The Single Audit Act requires us to report other findings. If there are other instances of noncompliance that is not determined to be a significant deficiency or material weakness, we will just report it as “other reportable findings.” You guys had a couple of those, and it was minor, but it needed to be reported in the prior year.

Moving on to the one finding in this report this year. It is a recurring finding and it is on the compilation of the vacation and sick leave records. Again, when we are looking at the sick leave records and we are trying to test to see if all of the information is rolling up to the total number that needs to be reported for the CAFR for the accrued vacation, we do still notice that there are errors, primarily because it is a very manual process of completing the records, compiling the records, and then transmitting the information up to Finance. I know that Finance is working on... it is in their Corrective Action Plan. They are working on implementing a system to computerize it more and make it a little more automotive. It is a slow process to do it. It is not an instant fix as to getting all of the records organized and getting everything in place. I am assuming at this point that it still is a manual process so this might be a recurring finding again next year.

Chair Furfaro: Blake, I want to qualify what I said to you at the beginning of this. We have three hundred ninety-five thousand dollars (\$395,000) out there for this computerized system so that we can take the manual errors out of this process. As I said in the beginning between Police, Fire, Public Works, and Parks; to me, that is where the exposure is. We have these little transfer slips, because I sign them here, that deal with the twenty-two (22) employees that we have and how we are reconciling what could be their sick, vacation, leave without pay, and even their compensatory time. Those slips are balanced too. They actually manual enter what actually ends up being the calculation of the total paycheck. I think our situation is more complicated than that. I am going to ask for a separate presentation from Finance and Human Resources (HR) because we have now created an HR Department, so we are going to go through a period of a progressive scope about Finance no longer handling the records, but the records are now going to be handled by the HR Department. I am disappointed that we are not farther along. We spent a whole year creating a new HR Department, but here is the biggest single expense in the County and we have not scoped out how this would particularly affect the HR Department and be relieved of Finance, while at the same time, we are shopping for this computer software that would help us manage it. I think this has to be a separate item. I am discouraged that this is the second time in a row that it is popping up. I know how detailed it is because you are trying to reconcile back to a vacation bank, a sick leave bank, compensatory time and civil-service, and calculated one and a half times. Somebody has to be keeping track of these balances. Now, we are making an

even bigger change by having some of this move over to HR. I want to affirm what you just said. This will probably be an item next year again. We need to put it on our agenda at the Council as a separate item to find out how we will progress on this scope of responsibility. Thank you. I just wanted to make that statement so we are all sensitive to it.

Mr. Isobe: Okay. Thank you. On page number thirty-one, as I think I had gone over a little while ago about the summary of the current year audit results— pages numbers thirty-one, thirty-two, and thirty-three are the prior audit findings. Page number thirty-one is the financial statement internal control findings that we had in the prior year. If you note, the first one is still not accomplished. We have it as a repeat finding this year. The remaining ones on the financial statement side had been accomplished, resolved, and taken care of. On your single audit programs, there were six (6) findings in the prior year and all of them have been taken care of and resolved. I know Chair had mentioned that Councilmember Rapozo had called the prior audit report... terrible, but this year's one looks much better. I have one more report. We are done with the Single Audit Report.

Chair Furfaro: I want to ask if there are any questions on the Single Audit Report. We thank N&K for the work. I also want to say that because it seems we are constantly making improvements as you can see from this piece. Are there any questions on the Single Audit Report?

Mr. Bynum: I like the subtle changes you made in the presentation this year. Thank you. I want to be the first to say that despite some of the cautions you said, I am pleased about the progress we made since last year and concur with the Chair completely. We will follow-up on these big issues which are a tough nut. I think the Chair outlined those issues really well. Last year after your report, we followed up on the Single Audit and only a few minor findings that we had not addressed here. It was confident that they would be resolved. The Council followed up on every item with a few exceptions right at the end. What I saw was a real commitment from the Administration. They really addressed these in the year and also more comprehensively because some of these are bigger issues and have policy, and maybe even some past abuse related to overtime that complicate that endeavor. I just want to be the first to say that I am really pleased with this audit. I did not agree with Councilmember Rapozo that last year was the worst ever. Like most audits, it brought up some significant things. To see no findings in Federal programs— I cannot remember that happening before and I just really want to acknowledge the real concerted effort. I do not think I have a question other than the fact that I think you did a really good job at outlining those. In your comments now putting the outstanding issues, which are significant and serious, but in a perspective, I think it is corrupt that they are difficult, was never reasonable, and that those findings would continue. You are even warning us that they are likely to be there next year. I know between Council Chair and the rest of the Council, we will collaborate with the Administration and get a clear understanding of how to move forward on that. I just think that this is a good report. Thank you.

Mr. Isobe: Thank you.

Chair Furfaro: Okay. Vice Chair, you have the floor.

Mr. Chock: Hi Blake. Thanks again for your work. It was very thorough. The Chair mentioned the specific Departments that were in

question, but I wanted to confirm that with you. For instance, out of the sixty (60) samples that you mentioned in the efficiency.

Mr. Isobe: Which Departments were those findings in?

Mr. Chock: Yes.

JOHN PAUL BAUTISTA, N&K CPAs, Inc.: Those Departments were Elderly Affairs, Public Works, and Fire.

Mr. Chock: Okay. Thank you.

Chair Furfaro: Can I do a follow-up? Did you do any samples of Police?

Mr. Bautista: Yes.

Chair Furfaro: Congratulations. Very good. Thank you. JoAnn, you wanted the floor?

Ms. Yukimura: Yes. Thank you. First of all, I am also very pleased. Congratulations on the Certificate of Excellence for the CAFR and for a very good presentation. I really want to acknowledge our Finance Department, our Budget Team, our Administration in general, and the Departments for their work to correct their deficiencies. In the same moment, I am very distressed about the vacation and sick leave records problem. This may have been the second time in a row that it has been highlighted, but it has actually been about five (5) or six (6) years that this Council has expressed concern. We even appropriated that three hundred thousand dollars (\$300,000) plus and it lay dormant, unused by the Administration for several years where we had to re-appropriate it. It is a longstanding problem and I think it has huge consequences if you think about payroll over the years, how that factors into pension funds, if there are errors either way penalizing the employee, and taking improper use of County moneys. It is a serious problem. In that respect, I just was curious about last year's Departments that show deficiencies. You may not have that here, but could you send it to us?

Mr. Isobe: Sure.

Chair Furfaro: We will send that over as a question.

Ms. Yukimura: Yes. Thank you.

Chair Furfaro: I also want to point out that the improvements are really wonderful, but our biggest single expense in the County is our payroll. The fact of the matter is that we have had that money out there since 2009, and then further complicated by the split of Finance and HR and creating more of a roll in HR. We have not gotten their yet, so that is going to be a rather large discussion to find out how we are going to make a smoother transition there. Did you make any recommendations in the short-term to Finance about how to best reconcile the vacation and sick leave liability? Did you make any for this manual period that we are in?

Mr. Isobe: The errors that we are noticing are more on the use side. What we look at is if they are requesting off that there is a request off

and that it is posted. The roll up to the actual liability— it is supported. The schedules are there to support it, but the details behind it are where we are finding the errors. I do not believe it is on the Finance side; it is actually on the independent Departments.

Chair Furfaro: It sounds like it is on the managers' side.

Mr. Isobe: Yes.

Chair Furfaro: Okay. Go right ahead, JoAnn.

Ms. Yukimura: What you just said right now is that the documentation is missing. Is that correct?

Mr. Bautista: It is forms that are not being filled out or not properly signed.

Ms. Yukimura: Not what?

Mr. Bautista: Properly signed.

Ms. Yukimura: Okay. That is clearly a management issue.

Chair Furfaro: Well, if you could share with me any of those notes, I would appreciate it. I will send it over as kind of a post question on if you made any recommendations.

Mr. Isobe: Okay. Thank you.

Chair Furfaro: Thank you. It looks like we are going to go to the Management Advisory Report next.

Mr. Isobe: Yes.

Chair Furfaro: Okay.

Mr. Isobe: As I had mentioned earlier, the Management Advisory Report is just an additional report of other items that we may have noticed through our audit that could maybe just help the County strengthen controls or operating efficiency. I think we had this in the past two (2) years that we have been doing the audit. We have kind of been sharing it with the Council.

We will start off with the first one, "Improve Internal Controls Over pCard Purchases." This is a repeat comment from the prior year. Again, we look at the pCard transactions when we are doing our audit. It is a growing part of your purchasing cycle now. We are still noticing instances where the procurement process is not being followed correctly or just the documentation of the preapprovals are not being done. We are also noticing verbal approvals, but for our audit purposes or when anyone else is looking at that transaction, you would not know that somebody actually got verbal approval before the purchase was made. My understanding is that the pCard has not modified the purchasing process, but is just helping to expedite the purchase itself. The County's procurement policies and procedures are still in place; it is just that pCards have stepped in to make payment.

In the back of the report is the County's Corrective Action Plan. You can take a look. I believe for this comment... because it was made in the prior year, there was some training and some guidance provided; therefore, our finding did not come out and our reports did not come out to maybe the same time around December of last year. Some of the transactions we did look at still were going to recur until the training and different guidance went out to strengthen the controls over this pCard process. That is the first finding and it is a repeat finding.

Moving on to 13-02, "Review Treasury Trust Accounts," I believe this finding came up during our first year that we did the audit and it is back. We took a look at the different Treasury Trust accounts and we still note that the Public Work's Fiscal Treasury Trust holds about forty (40) deposits totaling about one hundred forty-four thousand dollars (\$144,000) worth of deposits back from May 9, 1986 through September 4, 2007. I think there is about seventy-five thousand dollars (\$75,000) of that is actually a performance bond from Abe's. I believe that there are things that still need to be done to get that out and determine the proper disposition, so we will leave it at that.

Mr. Bynum:

This was a previous finding you said?

Mr. Isobe: Yes. We had brought this up maybe in our first year... 2011 was our first year in the CAFR where we had brought this up. They had cleaned up some of it last year, so they are making progress. We had closed it off and when we looked at it again this year, it did not move so we decided to bring it up again.

Chair Furfaro: We will make a note, but the reality is that about half of the one hundred forty-four thousand dollars (\$144,000) is in fact performance bonds, right?

Mr. Isobe:

One (1) performance bond.

Chair Furfaro: Yes, one (1) performance bond makes up half of the piece. It would not hurt us to schedule some time with our Treasurer to reference those other Treasury Trust Accounts and get a better idea. Thank you very much.

Mr. Isobe: Moving on to 13-03, "Reconcile and Review Residential Refuse Collections Assessments (RRCA)." It is a new finding. The County began assessing the Residential Refuse Collections Assessments or the "RRCA" in July 1, 2011. The County decided to utilize the Real Property Tax Assessment system to assess these fees. In 2012, the uncollected balance that year was pretty minimal. It was not substantial for us to take a look at; it was about ten thousand dollars (\$10,000). In the Fiscal Year 2013, the balance had grown to about one hundred thirty-nine thousand dollars (\$139,000) and we wanted a supporting schedule to look at what is supporting this outstanding balance. When we went around trying to get that information, we found out that the Solid Waste Division is responsible for the RRCA, but because it is on the Real Property Tax system, the Real Property Tax Division is more familiar with the different reports and things that need to be run. It came down to the monitoring and looking at this RRCA fees that was not being done or the reports were not being run from the Solid Waste Division. The Real Property Tax Division is, I guess, more responsible for just the Real Property Taxes, but because this was tagged on to their system...

anyway, it was coming out, but a separate report to identify that RRCA accounts and amount was not being generated at year end. We met with Solid Waste and I guess it is a pretty easy report to run. I believe this will be closed off in this coming year. They are aware of what they should be looking at and what they should be running.

Chair Furfaro: We will make a note so that they are first on our January agenda to find out what is going on because this confusion bothers me. This bill comes out as part of our tax bill. If you got a bill that is going to your financial institution that is collecting insurance, taxes, and so forth; it is showing on that bill. I sure hope that it is not the financial institutions that are not responding to the County. The policing of it, you are saying, is Public Works.

Mr. Isobe: Solid Waste, yes.

Chair Furfaro: So I wonder if that is based on the fact that they have not done all of the distribution on the receptacles or what neighborhoods are responsible. It is a good discussion for us to have.

Mr. Isobe: Our finding is more the fact that there was no report being generated to support that balance. When we were looking for, "Okay, who owes what to make up this one hundred thirty-nine thousand dollars (\$139,000) for (inaudible) who is still outstanding?" That was not being able to be provided. The report that was being generated was a combination report, which was being run to hold the Real Property Tax Assessment outstanding and the RRCA blended in, but your Real Property Tax receivable sits on your General Fund. The receivable for this RRCA and the revenues...

Chair Furfaro: Is in Solid Waste.

Mr. Isobe: Yes. That separation needed to be done.

Chair Furfaro: It seems to be a very simple procedure.

Mr. Isobe: Yes it is.

Chair Furfaro: Okay. We will have them here in January.
Mr. Bynum, and then JoAnn.

Mr. Bynum: I really appreciate this analysis because I was here when we made the decision to put this in and a lot of these questions were about, "How are you going to separate the funds? Are you not going to cause confusion when you have a fee and a tax in the same bill? How are you going to separate it? Are historic tax payments in arrears going to get tied in with trash fees in arrears? What are the enforcement mechanisms for taxes versus a fee that is not being paid?" Those were the questions I asked when we made this decision. I supported it in the end because it is what the Administration asked for as opposed to putting it in a water bill or something else. I just wanted to say those things on the record because I know we will follow-up very specifically.

Chair Furfaro: Let us make it very clear. It was not us that made the decision other than to go with their recommendation.

Mr. Bynum: Right. I did not oppose that, but many of us asked these specific questions. I am a little disappointed that there was not more forethought. That is why you are here and this is the service you are providing in our community and I think it is a good catch. Thank you.

Chair Furfaro: JoAnn, you have the floor.

Ms. Yukimura: I do not know if this is in the *kuleana* of your audit, but was there any discussion about how they manage the receivables in terms of follow-up and penalties or consequences for nonpayment?

Mr. Isobe: We did not really look at that part. We did talk to the Real Property Tax Division to try and get an idea of— they are still taking in the collections for the RRCA. The account balances are all connected with the Real Property Tax Assessment accounts. “How that application of the payments is being made to the accounts and who is doing the follow-up?” We talked to them. They are responsible for the Real Property Tax Assessments. That was our understanding. The RRCA is not their responsibility; it is Solid Waste’s responsibility. Who is responsible for following up— I would assume it is the Solid Waste Division. Whether that is being done is hard to say. When we are looking for a report to support that balance and cannot get that report, maybe there is a different mechanism to log on to the system and look at the different balances. From what we came across, there was no report for us.

Ms. Yukimura: Okay. Thank you. Chair Furfaro, I really support a follow-up that would cover both the...

Chair Furfaro: It will be in the first Council meeting in January.

Ms. Yukimura: It would cover both the reporting of the balances and the accounts, but also their receivables procedures, I guess.

Chair Furfaro: It starts with the fact that I think we all assume that since it is going on one bill, the fact that they would have had the detail worked out where a payment came in... so much went to this, for lack of any other term, this subsidiary ledger that went to Solid Waste and the other portion was applied to the General Fund on property tax. It does look like there is a system there. Clearly, we will follow-up and what their solution is. We will do that maybe in the later part of January.

Ms. Yukimura: Chair, besides that auditing... not auditing, it is the...

Chair Furfaro: We will get all of the pieces you mentioned.

Ms. Yukimura: Okay, like the receivables policy and how to do...

Chair Furfaro: Yes, but what I am saying is if you send it out on a tax bill, the receivable is there because it is on the tax bill.

Ms. Yukimura: Right.

Chair Furfaro: They have to develop as a subsidiary ledger that transferred this payment over here due to Solid Waste. I went to hotel school, not accounting, but something to that effect is what we are looking for.

Ms. Yukimura: Okay. Thank you.

Chair Furfaro: I would concur with Mr. Bynum. I think we all thought the particular operational detail was worked out in the presentation.

Ms. Yukimura: One of the things to look at is the Solid Waste plan. I think it recommended the personnel necessary to do the administrative functioning on the Solid Waste fee. I do not know to what extent that was followed.

Chair Furfaro: We will cover that. Good point JoAnn.

Ms. Yukimura: Thank you.

Chair Furfaro: Okay.

Mr. Isobe: The last one that we have reporting is 13-04, "Review Unearned Revenues and Grant Receivables" balances. The County receives Federal and State grant moneys and they are all established as various projects throughout the year. Depending on the funding sources, sometimes the County may receive funds upfront or the County may expend funds upfront, and then request Federal or State reimbursement for those grants that they may have incurred. At year end, because all of these projects that have been funded by the Feds or the State, either will have extra money either received or moneys due from them. Unearned revenue for moneys collected in advance or a grant receivable has been recorded to offset those either amounts and balance the amounts expended. What we noticed is that there are a bunch of older ones, dating on the receivable side back to 1998, and these projects that still have receivable balances. That is probably where the County has paid for some expenditures on the project and either needs to follow-up and look for reimbursement on those grants or some type of clean-up needs to be done on that. On the opposite side where the County has received moneys in advance, there are projects dating back to 1991... forty-nine (49) of those account grant balances with unearned revenue... the County received moneys in advance and needs to determine the proper disposition of these funds. I do not think it is a really easy process. Because it is a lot of older grants and older balances, proper support needs to be gathered in order to either determine that you one, earn those unearned revenues, or two; "Did you guys actually receive those receivables and what actually happened in the past?" I know it is probably a long, tedious process to go through all of these, but we just wanted to let you guys know that there are these older things. Whether or not some of these different Departments and Agencies need to maybe put a little more priority to cleaning up a lot of these older ones— I know that Finance has worked with some of them and trying to work on cleaning them up, but to let you guys know, there are a bunch of these older ones still out there.

Mr. Bynum: What was the last sentence you said?

Mr. Isobe: There are a bunch of these balances still out there to take care of.

Chair Furfaro: Blake, do you have a list that identifies these forty-nine (49) separate grants that are spread amongst nine (9) different Departments?

Mr. Isobe: Yes.

Chair Furfaro: Could you provide that to me? I will write for it.

Mr. Isobe: Okay.

Chair Furfaro: Mr. Chock.

Mr. Chock: Do you also have an amount for unearned revenues and grant receivables?

Mr. Bautista: At year end, the deferred revenue was seven hundred seventy-one thousand dollars (\$771,000) and grant receivables were two hundred eight thousand dollars (\$208,000).

Ms. Yukimura: Goodness.

Mr. Chock: Thank you.

Chair Furfaro: JoAnn.

Ms. Yukimura: Seven hundred seventy-one thousand dollars (\$771,000)— is that what you said?

Mr. Bautista: That is for deferred revenue.

Ms. Yukimura: Deferred revenue meaning where we have not been reimbursed? That is what we owe?

Mr. Isobe: That is where you got moneys in advanced and they are to spend it down.

Ms. Yukimura: Okay. Two hundred eight thousand dollars (\$208,000) is where we have not yet been reimbursed, at least on the surface of things?

Mr. Bautista: Yes.

Ms. Yukimura: That is a lot of money.

Chair Furfaro: It is a net variance of over five hundred thousand dollars (\$500,000).

Ms. Yukimura: And a huge liability, theoretically.

Mr. Isobe: Theoretically— it shows up. It is recorded in your numbers. That is your unearned revenues... that is part of the unearned revenues on the books right now. Whether or not those moneys have actually been earned— that is the investigation that needs to be done; matching up whatever

those project expenditures were to what has been reported and what has truly been earned. What is showing in the records is that it has not been. Therefore, that is being shown as unearned revenue.

Ms. Yukimura: It is as recent as 2012, right? My question is do we have a system of monitoring grants so that we are assured that they are closed in a timely manner, either by getting the reimbursement or by paying amount due?

Mr. Isobe: I believe Finance does work with the different Departments and Agencies who have and were responsible for these grants to timely submit their expenditure reports, look at some of these unearned revenues and grant receivable balances, and submit anything that they need to try and reconcile some of these. The 2012— I think we may be quoting here is... what we also did was we looked to balances that did not move throughout Fiscal Year 2013. If it was a receivable ten thousand dollars (\$10,000) at year end at 2012 and it is still a receivable of the exact same amount and there are no additional revenues or no expenditures on that grant, we are reporting it to just keep it on the radar to take a look at and if there is something that needs to be done.

Ms. Yukimura: Yes. Just in terms of reporting to us, including the monetary amounts would be helpful in the report itself.

Mr. Isobe: Okay.

Ms. Yukimura: It gives us the...

Chair Furfaro: We will put that in JoAnn.

Ms. Yukimura: Yes. It gives us an idea of the scope and risk or whatever.

Mr. Isobe: Okay.

Chair Furfaro: I was not going to write over to ask for a blank number. We want the details associated with this because the net exposure is five hundred thousand dollars (\$500,000), but because it might also simply be money that we have earned and the Department has not closed out their performance. It might actually be money that we have earned. We need to know that too.

Mr. Isobe: Page number nine is our Status Report, similar to our Single Audit Report. We do provide a status on the prior comments that we have made in the past two (2) years. The two (2) recurring ones that I kind of mentioned at the start that is still not accomplished, but there has been some movement on the other comments that we have made. Page number twelve is the County's response to these comments, personnel responsible, and what the County is anticipating on doing to address these comments.

Chair Furfaro: Let me ask you that when you reviewed the pCards, did you in fact identify all of the cards issued to whom and reconciled them to a list of Departments?

Mr. Isobe: Look at all the pCards...

Chair Furfaro: For example, the pCards we use here at the Council— I know exactly who has access to them. Is there reconciliation of that for other Departments?

Mr. Isobe: I do not believe we looked at that.

Mr. Bautista: We can identify the names and the Department.

Chair Furfaro: That is what I am looking for. I am sorry if I used “reconciling the pCards,” but you can do that?

Mr. Bautista: Yes.

Chair Furfaro: Tim, and then JoAnn.

Mr. Bynum: I want to admit that prior to today I have not read the Management Advisory Report. When I got through the Single Audit Report, I was happy. As you mentioned, the single audits are generally more serious issues, but it sounds like you are disappointed in the progress that was made on some of these issues like the pCard and auditor trust accounts. It sounds like you are disappointed that more progress has not been made. Is that fair characterization? You can say “yes.”

Mr. Isobe: On the pCard side, I believe that with the growth in use, the internal controls over that process needs to be pretty strong. I know you guys mentioned one of the larger expenses of the County is payroll, but aside from that are your non-payroll transactions which if you are going to use the pCards for a large percentage of those transactions, a strong system that controls over that process probably needs to be in place. I believe in 2012 when we first made this comment, it had just rolled out. We were concerned just to make sure you guys were aware of it. It is of concern, yes.

Mr. Bynum: I guess I did not get to this part and it is not as good of news as I find both in the CAFR... I will talk about that later, but it seems like Finance was really diving deep into a lot of these issues and made lots of improvement. Maybe these got sidelined a little bit and you picked up some new issues that were very interesting and I am sure we will follow-up on. Overall, I was really pleased with your report this year. This is your third year right?

Mr. Isobe: This is our third, yes.

Mr. Bynum: Good job. Thank you.

Chair Furfaro: JoAnn, you have the floor.

Ms. Yukimura: On the pCard issue, were there any Departments that showed more problems than others? I do not need you to say which Departments there are, but in looking at the problem areas...

Mr. Isobe: We can send over the list of Departments that had those findings. I think that is what you are going to request.

Chair Furfaro: You will see that in my question, which I mentioned earlier.

Mr. Isobe: Okay.

Chair Furfaro: The amounts— from there, we can identify who probably needs the most retraining, but I think the red flag here is the more and more people we give the courtesy of having a pCard, the larger the exposure is for abuse. Perhaps we have to tighten that up.

Ms. Yukimura: Thank you.

Chair Furfaro: Okay. You have the floor.

Mr. Bynum: On page number thirty-three is the Departmental Variance Report and I know our Staff generates a report from this that shows the percentage variance. Overall, this is an issue that we talked about and the variances seem much, much tighter than they were in the previous budgets because that was the goal. Do you agree?

Mr. Isobe: Yes. I know we looked at it. We had discussed this in the prior couple of years about your budget. The hard thing is that we do not really comment on...

Mr. Bynum: The budget. Yes, I get it.

Mr. Isobe: Yes. The variance is less.

Mr. Bynum: You do report these numbers, right?

Mr. Isobe: Yes.

Mr. Bynum: I will look at the report that our Staff generates because for some Departments, you expect bigger variances they hold and “money that you hope they do not use” kind of thing. Overall, I just wanted to really note that this was a goal. Without doing a detailed analysis, it looks like we really have moved forward on that goal and that is something to recognize. It is our goal. I know you do not really care that much about budget stuff, but you do report it and it is appreciated, so I wanted to recognize that. I think another goal we had was to not keep Fund Balances, Highways, and other funds that were unnecessary. (Inaudible) park funds there that should be in the General Fund. I believe this audit shows progress on that as well. Do you agree with that?

Mr. Isobe: Yes.

Mr. Bynum: Okay. Thank you. I just wanted to say that those are big takeaways that you did not discuss and I just wanted to acknowledge.

Mr. Isobe: Thank you.

Chair Furfaro: On the takeaway of this, I want to say that what the CAFR is really revealing to us is that we are probably not able to continue the financial spending and expansion in the County that we have over the last couple of years. It is very clear that some of these reports will indicate that we

might even have to come to a point to pay bills timely to actually have a strategy on the cash flow. Is that a fair assessment? We are going to have that discussion with the Treasurer.

Mr. Isobe:

I will defer that to your Treasurer.

Chair Furfaro: Okay. Blake, after another year of your reporting, we constantly get more and more detail and we are very pleased with your report here today. I will probably ask because I know if I start to set-up the schedules, that I will turn over to the Vice Chair for pursuing some of these questions. We may have some long-range questions to ask you as we prepare for those pieces. I do understand that there are some fees associated with that so we will probably keep it pretty limited.

Mr. Isobe:

Okay.

Chair Furfaro: You are available to us if we probe some of those further, right?

Mr. Isobe:

Sure.

Chair Furfaro: Sure. How about you Sir? Are you available if we want to probe further?

Mr. Bautista:

Sure.

Chair Furfaro: Okay. Are there any more questions for the auditors? It does not look like it. Do you have any closing comments for us?

Mr. Isobe: I want to thank Steve and his accounting department for helping us to coordinate the audit... Ernie Pasion for helping us coordinate the audit work... the time and effort put in to get the report out. By early December is pretty tough, but they do put in a lot of time and effort to coordinate a lot of the meetings and pulling a lot of the information that we need for the audit. A lot of the other Departments and Agencies that are kind of touched by the single audit— they also make time and space, and pull a lot of records for us. We want to thank them, too, for their cooperation. Thank you.

Chair Furfaro: I will be copying your Office on my questions that I sent over so that we can have better dialogue in the future with the Departments. Thank you very much for those nice comments to the Accounting Staff, Finance, and the Auditor's Department. It is much appreciated knowing that you have that kind of *kōkua* and cooperation. When you need information, it is made available to you. We can stay timely because I do know that trying to get something out in mid-December is a pretty difficult, critical path. I thank you again and my compliments to the County Staff that has helped you as well.

Mr. Bynum: When we call the meeting back to order, I just want to make some closing comments.

Chair Furfaro: I am not going to call the meeting back to order right now. I am going to see if there is anyone from the County that wants to comment on anything. Steve? Ernie? Ernie Pasion?

STEVEN A. HUNT, Director of Finance: For the record, Steve Hunt, Director of Finance. I just want to comment a little bit. I know it is coming back in the form of a question later specifically to the Highways Fund that was kind of brought up earlier, but I just want to make sure that we all understand that this is Fiscal Year 2013. A lot of the constraints and leveraging of the Highways Fund that was done for the Fiscal Year 2014 Budget has already been incorporated. Fund balances that we are talking about... a lot of that has been essentially pledged from the Highway Fund to Transportation. It was much more highly leveraged from the Highway Fund and the two (2) year program that we are talking about for the operational repaving from the Highway Fund did not begin until this current Fiscal Year and was not involved in Fiscal Year 2013. Just as an understanding that as we are transitioning to Fiscal Year 2014, that is when the real tight budget actual came into place.

Chair Furfaro: I have to also remind you that there was also a period prior to you that the Highway Department was almost two (2) years behind in some of their (inaudible) process.

Mr. Hunt: Correct. I know that at some point, the Bond Fund had been used as well, which is no longer the case. In speaking to the integration of the time and attendance piece, I know that is going to be something that will be resolved. It may take two (2) fiscal years to do that. There is a plan that we have worked on. Sally Motta has had no less than ten (10) meetings or more now, which has involved Information Technology (IT), the HR/Department of Personnel Services (DPS), and Payroll from Accounting. They are, at this point... in Fiscal Year 2015, you will see a budget that transitions three (3) members of Payroll into the HR/DPS Department. Part of it is that before we can go on to an electronic solution, we have to have a starting point, and that is the process that is taking the longest which is reconciling current accruals of sick leave and vacation with individual Departments to get the electronic starting point the same as where the records are. The very last piece will be time and attendance, but prior to that is the actual integration of HR/Personnel records to Payroll. Right now, they are not fully integrated so that is the first step. The final piece will be once the data has been scrubbed which all of the information is correct on the Personnel side and all the coding has been done on the Payroll side, then the electronic time and attendance piece will come in. I know there have been moneys that have been appropriated for that in the Bond Fund. A small portion of it has actually been drawn down this year, which includes the integration of the NEOGOV Hiring Solution into the payroll system into some guard so that has taken place, but we are not prepared to deal with the time and attendance piece until the data has been reconciled and scrubbed to the point where it is good data to work with.

Chair Furfaro: Steve, you do concur with my earlier comments that we are going through this period of scope and progression of how we get there before we get to the time and attendance piece. Has Sally been able to see some operational systems as time and attendance as part of our preview to this?

Mr. Hunt: We have had a demo from SunGard in terms of what it can do. Again, our focus has initially been just getting the Payroll and Personnel files corrected before we can really look at that.

Chair Furfaro: Understood. That was my earlier comment that you agreed with.

Mr. Hunt: I do.

Chair Furfaro: Okay. JoAnn.

Ms. Yukimura: First of all Steve, congratulations on the Certificate of Excellence... twenty (20) years now. To continue that is really a positive and good thing. It is a testimony to the work of your Department and your leadership... Ernie Barreira... the Departments. Thank you.

Mr. Hunt: I really need to acknowledge the Accounting Staff that has done a phenomenal job and the grants management side to having done such a clean report. To me, that is unheard of, so they have really done an excellent job. That means that individually, the Departments' managers for the grants have been doing a great job.

Ms. Yukimura: Thank you. I am glad that you specified where the work has been done and where credit is due. Your report on time and attendance is encouraging. The fact that you are talking about scrubbing the data and getting a starting point means that you are actually on the ground and moving towards an electronic system. That is very encouraging. Thank you to all the people who are working on that. Sally and team—I know there are quite a few. On the Highways Fund, I am not exactly clear what you said. Can you help me understand it better?

Mr. Hunt: Sure. This is the audit from Fiscal Year 2013.

Ms. Yukimura: Yes.

Mr. Hunt: Many of the changes that we made as far as use of the Highways Funds are reflected in the current budget, Fiscal Year 2014.

Ms. Yukimura: Okay.

Mr. Hunt: We were using a lot more of the General Fund dollars to assist Transportation. This year in Fiscal Year 2014, we are using a lot more Highways Fund dollars so those balances that, although they were accumulating, are now being drawn back down. The fact that Fiscal Year 2014—I believe there is about one million six hundred thousand dollars (\$1,600,000) that has been earmarked for road improvement projects with the anticipation that we are not going to actually spend them until Fiscal Year 2015 when we have the second year's balance added to that because of the purchasing power you get by going out with larger contracts. That two (2) year cycle actually begins Fiscal Year 2014, but will be implemented in Fiscal Year 2015 as far as an actual pay down and jobs done.

Ms. Yukimura: Right. Right now, the Highways Fund is generating how much money?

Mr. Hunt: I believe in revenue, somewhere in the neighborhood of twelve million dollars (\$12,000,000) was reported this year.

Ms. Yukimura: Okay.

Mr. Hunt: There will be a little bit more because we increased some fuel tax and depending on what happens with the weight tax, there could be more moneys going into that.

Ms. Yukimura: Transportation, who is on a "shoestring budget," is right now taking how much of the twelve million dollars (\$12,000,000)?

Mr. Hunt: I do not know off the top of my head.

Ms. Yukimura: Okay.

Chair Furfaro: Excuse me. I also want to clarify something, but you did follow what I am saying. Some of the lag in the Highways Fund is because previously, they did not do paving every year.

Ms. Yukimura: Right. I was referring to the part that is not for Roads, but the part that is for the bus.

Chair Furfaro: I was just referring to the balance because not paving was not done by design, they just did not do it.

Ms. Yukimura: Yes. Correct. Hopefully there is going to be a design proposed this year in terms of the inventory state of our County roads and a proposed system for paving based on a preventive maintenance schedule. I am looking forward to that and I was looking forward to it last year. We have been patient but I really hope to see it in this year's budget. I am concerned about how much money Roads will need of the Highways Fund and the burgeoning needs for an expanding transit system. Thank you.

Chair Furfaro: Are there any more comments for the Finance Director? Steve, I particularly want to thank you and your Staff. I know you summarized it, but as more and more regulations appear from us, the Feds, the State, and so forth; your team working for that compliance is very much appreciated. Thank you very much for the work that your whole team did in getting us to this point. We will be sending over those questions and we will be scheduling and spreading it out in the first quarter to get some further detail. Thank you very much.

Mr. Hunt: Thank you Chair.

Chair Furfaro: Anyone else in the County Staff wants to comment? No. Okay. Although I asked for public comment earlier, is there anyone in the public who wants to comment? Seeing no one...

Ms. Yukimura: There are two (2) people.

Chair Furfaro: You two (2)? You were both here when I asked for comments in the beginning. Go right ahead Glenn.

GLENN MICKENS: For the record, Glenn Mickens. Thank you Jay. I want to thank our auditors for the work they have done and particularly want to thank our County Auditor, Ernie Pasion, for his six (6) outstanding audits, which were reports that were clear and easily understandable by the public. I also congratulate him for gaining a Certificate for Excellence in financial reporting for

his Department. The words “excel and excel” were used in their report. Since we did no road paving for three (3) years... I believe it was for three (3) years... 2010, 2011, and 2012— and accumulated over eight million dollars (\$8,000,000). I know you guys approved these repaving budgets each year. In the past, anytime you approved a budget, they went out and repaved the roads, whether it was two million dollars (\$2,000,000) or three million dollars (\$3,000,000). Jay got some added money one time and it was gone ahead and done, but we did not do it for three (3) years. Anyway, there was something like... I think it was eight million eight hundred thousand dollars (\$8,800,000) allocated money. What happened to these funds? Even since our County Engineer, Larry Dill, has thankfully agreed to pave our roads according to American Association of State Highway and Transportation Officials (AASHTO) or Hawai'i Asphalt Paving Industry (HAPI) standards. I do not see the island wide work being done on our roads. We have roads on our island that have not been paved for twenty (20) years or more. I have been one of the biggest complainers in this situation. As a small example, our Kapa'a Transfer Station road that is about one thousand (1,000) feet is a pit and is used daily by hundreds or more of people. I have been trying for months to get it paved. The workers there want it done badly, but with no success. There are still no evidence that many of our roads are being paved for political reasons and not as Larry has pointed out, should be done due to usage and condition of the roads. Those are the only two (2) reasons the roads should be paved, which I agree with one hundred percent (100%). There are still roads on this island, and you can ask Larry Teves and others, that are being paved for political reasons and I think that is wrong. Many times I have heard Chair Furfaro talk about our “rainy day fund.” I believe he said it should be about fifteen percent (15%), but how much is actually in that fund now? I did not hear that in the audit report, Jay. I just wondered what kind of money is...

Chair Furfaro: To answer your question, we should have a reserve of that amount. We do have a small reserve of about one million four hundred thousand dollars (\$1,400,000), I think. That is not the subject on the agenda today, but you are saying it should be and what you are forgetting over there is that we are trying to get there by putting a little bit aside each time. We would hope to build a fifteen percent (15%), but...

Mr. Mickens: At this stage of the game, what percentage is in there now?

Chair Furfaro: Maybe one million four hundred thousand dollars (\$1,400,000).

Mr. Mickens: Which is what percent of the total?

Chair Furfaro: Let us see... I think that is a real simple math question since I went to public school. One million four hundred thousand dollars (\$1,400,000) divided by a one hundred million dollars (\$100,000,000)...

Mr. Mickens: One percent (1%).

Chair Furfaro: You did the math.

Mr. Mickens: Okay. This situation is obviously going to have to be seriously corrected, right? What is in our General Fund right now? What is left in our General Fund?

Chair Furfaro: I will give you a copy of that sheet.

Mr. Mickens: Okay.

Chair Furfaro: To say there is one number that is going to be carried over is a better way to say it. It is twelve million seven hundred thousand dollars (\$12,700,000) that will be a carried over and that carry over will start next year's budget.

Mr. Mickens: Right.

Chair Furfaro: As you budget for everything, we will come to another carry over in the CAFR for the next year. What I am saying is be cautious because that carry over next year, based on our spending right now, may not be significant. I will show you on the audit page where that number is.

Mr. Mickens: Okay. I appreciate it. I know JoAnn brought up the roads and as JoAnn knows, I have been at this for eighteen (18) years trying to get something. We need "x amount" of money and each year it gets worse. As JoAnn is probably looking at the statistics there, anytime something is left undone for a number of years and the more years go by, the greater the expense is going to be to repair that road. You are going to have to completely redo the whole road and everything. Until we can possibly catch up— Jay, I remember you got more money one year. I think it was one million dollars (\$1,000,000) or something; two million dollars (\$2,000,000) allocated more. When you go over and find out the costs and each year the cost of AC (asphalt/concrete) goes higher and higher, it is going to take a lot more money to even pay those things. We are kind of in a "Catch-22" situation where we do not pave because we say we do not have the funds, yet money was allocated for those things but was not used in things so I think something needs to be done.

Chair Furfaro: I think what you just expressed was the rationale by the County Engineer. If he does it in two (2) year increments, he can have a bigger paving budget and he can put more blacktop down because he has a better price.

Mr. Mickens: On the flipside, the roads are deteriorating more, so we have to do more work.

Chair Furfaro: I am not going to get into a debate over here. I am answering what Larry said his strategy was.

Mr. Mickens: Right. In defense of Larry Dill, I think he...

Chair Furfaro: I do not need to defend Larry Dill.

Mr. Mickens: Okay.

Chair Furfaro: I am telling you what Larry is doing.

Mr. Mickens: I am complimenting him.

Chair Furfaro: Well then compliment him.

Mr. Mickens: I am trying to and you stopped me.

Chair Furfaro: No, but you said in difference of what I said. I will give you the details of the numbers you want.

Mr. Mickens: Right.

Chair Furfaro: Larry is planning to pave in two (2) year increments. We are carrying over one million six hundred thousand dollars (\$1,600,000) in the Roads Division despite the debate of "we did not pave for three (3) years." That is history. The accountants show the one million six hundred thousand dollars (\$1,600,000) being there. I will give you the detail of the unassigned balance.

Mr. Mickens: My compliment to Larry is that now that he is doing it according to AASHTO and HAPI standards, it is going to cost more money. I understand why he needs more money now to go out and do (inaudible) and stuff on that road as opposed to just paving over on top of it, which I highly compliment him for.

Chair Furfaro: Thank you for your compliment and thank you for pointing out that he actually may not do more roads because he is coming to standards.

Mr. Mickens: Right. So we need more money, right?

Chair Furfaro: That is what you are saying.

Mr. Mickens: Okay. Thank you.

JOE ROSA: Good morning members of the Council. For the record, Joe Rosa. Again, I hear things on this budget where money is being spent where there is no demand by the public for certain projects. Some of them are costing the County millions and millions that could be used in other places. Look at your Highways Fund spending. Nobody asked for complete roadways or streets. We do not need those designs that come from the mainland that is going to kill the golden egg for the tourist industry. The tourists come to Kaua'i basically to see the way the island is. Why the complete streets? Who is asking for it? The people are asking for a better infrastructure on this island to get the traffic in and out, not for fancy complete streets with sidewalks, bike paths, et cetera. Somebody's pocket is getting filled. To make plans for the highways to pave— Isenberg Track was supposed to be paved in 2004 and it finally got paved in 2013. Why? They say planned paving, but it is not planned paving; it ends up being select paving as to who lives where on what street and what town. That is where the selection comes in. There are no at-random paving for the year. Is there a schedule for the year? No. It comes to selection of who lives on the street and who lives in that area. That is not planned. Planned paving is the way you schedule it. Also, if the County cannot maintain the Kōke'e Road— when I was with the Department of Transportation (DOT), the County handed over (inaudible) Road and Mā'alo Road to the State to maintain, upkeep, and update. If Kōke'e Road is a problem, go see the Feds for some Federal funding also. They use it for defense purposes. It is a big project for the County. See the State and get funding. Remember, the Federal government defense use Kōke'e so we should get some subsidy from the Feds for the maintenance of the road with the heavy equipment that they use to get up to

Makaha Ridge. Then you take that bike path— when Doug Haigh started it out about ten (10) years ago...

Chair Furfaro:
another three (3) minutes.

That was three (3) minutes, Joe. You have

Mr. Rosa: There was no rationale to that bike path. Until today, it still is costing more and more. It costs more for funding for the bike path than it does for Kōkeʻe Road. That is a good example. That is why we always hear about taxes; property tax and vehicle weight tax. We have enough taxes. Things that are going on are supposed to be according to priority. I remember every year from the days of the late Bryan Baptiste, the problem of Kauaʻi is the infrastructure and nothing is being done. Līhuʻe Town is still choking. Even with signal lights at Isenberg Track, you have a hard time coming out because there is only one line of traffic that is going out of town in the morning and afternoons. People talk about the tourist industry, but I must point the finger at JoAnn. She has forgotten about the tourist industry because she always gives contracts to Charlier Associates. Who is Charlier? They come from the mainland. They are not local orientated people. I see all the beautification projects that Doug Haigh does over here, but there is nothing significant. Not even the State flower is planted over there. I wonder if these associates know what the State flower of Hawaiʻi is. All of that parking that they closed ʻEiwa Street for was to take away the parking that they lost in the fancy configurations that they are doing in that parking lot area there. They had bougainvillea and trees all through that parking lot. When the County took it over, they knocked it down— got additional paving they said. Now they are going back and taking away all of the paving with the so-called “fancy walkways” and stuff. Līhuʻe will never be a walking town. I lived in Līhuʻe for eighty-one (81) years. Līhuʻe was a walking town up until the 60's. After that, no way. We needed alternate routes and I keep emphasizing “alternate routes.” Kapule Highway was one of them and *mauka* was the other one, but it was not completed. They had grid roads coming in from both ways so we would not have all these bottlenecks that we have. That is to planning. I suggested some of these improvements on Rice Street and glad they have done it, but I was given for (inaudible) by Jay Furfaro and I thank him for it. Some people said, “Thanks to you, Joe, we have a left turn now on ʻUmi and Rice Street.” This kind of engineering has to get down to the basic grassroots, as to what the people want on Kauaʻi, not just spending our money.

Chair Furfaro:

Joe, that was your six (6) minutes.

Mr. Rosa:

Okay. I will wrap it up.

Chair Furfaro:
quick.

No, you need to wrap it up really, really

Mr. Rosa: Yes. Look into what the needs really are, not what Doug Haigh and some other people like that is destroying the tourist industry here in Līhuʻe, which was a quiet and peaceful town.

Chair Furfaro:

Okay. That is it Joe.

Mr. Rosa:

Thank you.

Chair Furfaro: Joe, I want to make sure that you understand that I let you go on with some items that are not on today's agenda.

Mr. Rosa: I understand that, Jay.

Chair Furfaro: Okay. Please note that we are going to have some reposting of the Department Heads to talk about some of these things. The proper time to address it was then. I would also appreciate going into the new year that as you have comments that deal with things in the past, that is fine, but let us not point fingers. Let us try the new year in a new way.

Mr. Rosa: Yes. That is fair enough.

Chair Furfaro: Thank you. Are there any questions for Joe? This will be our last meeting of the holiday season, so if there is nobody else—I am sorry. That is right; we have a Council Meeting tomorrow. Let us call the meeting back to order and see if we have some comments of the auditors' presentation. I will try and meet with you right after, Glenn, and give you some information. Go ahead.

There being no objections, the meeting was called back to order, and proceeded as follows:

Mr. Bynum: I will try to be really quick. I have a couple of handouts that are CAFR numbers in perspective. I just want to make some comments about putting this year's CAFR in perspective and I am waiting for the handout. I admitted yesterday to not reading the Management Advisory Report, but other than that and some concerns that came out of that that I am sure we will address; this was a very good year. The single audit follow-up that occurred during the course of this very intense year for our Finance Department is pretty impressive. I want to first point out that these are updated charts that I have shown here many times. This is our Real Property Tax revenue since 2002. If this could go up on the screen, it would be nice. Basically, we peaked in 2009/2010 and our revenues are down fifteen million dollars (\$15,000,000) from where we are at the peak. This year, we had a net change in Fund Balance of over about one million dollars (\$1,000,000), so we are using the surplus we had to fund ongoing services because our revenues still are not being expenditures. Efforts to try to stem that loss on revenue were not successful. However, last year, we did increase property taxes for a number of classes to put their contribution back to where it was in 2008/2009 when they started falling. Our budget that we are currently operating under assumes that we will bleed another eleven million dollars (\$11,000,000) from our surplus. When you spend more money than you take in, you are in a deficit, and we have been in a deficit for a number of years after being in big surpluses. This little more complicated sheet here are CAFR numbers. Can the other sheet go up? The takeaways here are—what I really want to focus on is this net change in General Fund balance, column "H." If you are looking at since 1995, we rarely made large changes up or down and a well-managed County finances... we will not see large changes in our General Fund balance either up or down. As we entered into 2005, all of a sudden, we started seeing large, large increases in the net fund balance; eleven million dollars (\$11,000,000), twelve million dollars (\$12,000,000). At one point, we saw our surplus balloon to over half of our annual expenditures General Fund transfers out. You can see that we balloon way up to a very large Fund Balance, and now look at the last three (3) years— a nine million dollars (\$9,000,000) bleed from our Fund Balance... fourteen million dollars (\$14,000,000), eleven million dollars (\$11,000,000)... and we have already planned for another

eleven million dollars (\$11,000,000) for next year. To balance this year's budget, we had to plan to dip into that and increase revenues. Our County has not managed its finances well over the last ten (10) years. We are all responsible. I am responsible. The Mayor is responsible. Those ten (10) years are responsible... the Finance Directors and the Councilmembers. The good news is that since Steve Hunt has been Finance Director—the Mayor and the Council have been making structural changes to get our financial house in order. We are moving in that direction. As has been mentioned today, payroll is our number one expense. Everybody gets raises over the next few years. All the Hawai'i Government Employees Association (HGEA), Police, Fire— Police and Fire get substantial raises. It is good. It is time to get back to that because our workers have gone years at status quo with loss benefits, wages, and furloughs. We have got to get back to normal, but our revenue challenges are daunting. We have to come— not with ten million dollars (\$10,000,000) to spend on a project, but ten million dollars (\$10,000,000) of additional revenue just to meet our ongoing expenses, and we are still going to be in a hole. We have to do revenue above and beyond that to keep our commitments that we have made. I do not know what the Mayor will come up with this year, but it is going to be a daunting task. We are trying to address some revenue issues now to start that process even before the budget because we need revenues desperately or we need to stop doing something we are doing. I have heard Councilmembers say, "Hey, we need to find million dollars in cuts and stop spending our money on things we do not need to do." I do not know what that thing is that we are doing that we do not need to do that is substantial enough to make up the difference with costs cuts. I am very interested to see those Councilmembers put forward not just little pithily things or CIP cuts, but cuts of ongoing services and personnel because that is the only way you make it up without us addressing...

Chair Furfaro:

Mr. Bynum, that was five (5) minutes.

Mr. Bynum:

I am almost done.

Chair Furfaro:

You have another five (5) minutes.

Mr. Bynum: I hope to not go more than five (5) minutes, but I am almost done. These numbers are very telling. This is not what we planned. This is not a budget plan; this is what we actually did. What we actually did was have this balloon up of our Fund Balance and balloon done, and we have to get at a steady state. We have to bring in revenues equal to our commitments and make serious decisions about it if we are not going to follow through. Are we going to eliminate a Department? What Department would we eliminate? I just went to Elderly Affairs. We could get a couple million there. Let us just stop serving elderly people in our community... I do not think we are going to do that. The last takeaway— people have to be accurate about their statements. I have heard statements this year that we squandered our surplus on spending. That is not true. We gave our surplus away to taxpayers in the form of reduced tax bills... tens of millions and I will go into that when we get to budget. The spending truth is right here. There is a column on this thing called "Total Expenditures, Encumbrances, and Transfers Out." That is our General Fund cost of doing business, in essence. When our current Mayor came in, he had huge challenges and he actually cut those spending for two (2) years and has kept spending— I have never complained about the Mayor's spending proposals before us because he bit the bullet and that is reflected in the numbers. This loss of surplus is not a reflection of how to control spending; it is a reflection of revenue loss. When the revenues started falling, we did not make adjustments. I am done. Thank you.

Chair Furfaro:

Any other members? JoAnn, go ahead.

Ms. Yukimura: I just want to say that on this CAFR that it is a well-done report. I want to thank Blake and John for their work. Also, the Finance Department, our Budget Chief, and all of the Departments and Staff; especially Accounting and Grants that Steve mentioned. Not only is it a well-presented report which does identify some of the still existing problems, but it shows progress over the last two (2) years of audits, which takes a lot of work. It, again, meets the standards that deserve a Certificate of Excellence in reporting. It is very helpful to those of us who participate in creating the County's budget and programs. Thank you to all who helped here.

Chair Furfaro: Anyone else before I speak? No. First of all, Blake and John, thank you very much. It is a pleasure working with your firm. I am very pleased that you painted such a very clear picture to us and showed where the *pukas* in the road might be and so forth. You have two (2) more years on your contract? One (1) more year on your contract— again, it is a pleasure having some continuity there and you folks have done a very good job. Ernie Pasion, thank you very much for arranging this today through your Office and getting the external auditors interacting with the Accounting Division. Steve, Ernie, Sally, Ken, Annie, and the whole gang; thank you very much. Nadine, thank you for being here.

I want to make sure we do a couple summary pieces here. We are coming up on budget and one of the things that we cannot let people take away from this is painting a scary picture about the financial picture of the County. It is not the brightest budget opportunities we have had in the past, but there are also some good things. Kaua'i County has paid one hundred percent (100%) of its liability when it comes to the State. The State has an eight hundred forty-four million dollar (\$844,000,000) surplus in the paper on Monday. The fact of the matter is that they also have three million four hundred thousand dollars (\$3,400,000) in debt, that they have not identified in the employee retirement system. Hopefully, they will divvy up that pot and some of it will go there, but also, it is a way for us to acknowledge why the Transient Accommodations Tax (TAT) is important for us, as you can see that revenues are slipping here. I also want to make sure that we understand— I am going to ask Ernie Pasion if he can consider putting this on his audit plan for each year because it looks like we are at least two (2) years away from a real solution on our payroll reconciliations and so forth. Maybe in the meantime, our internal auditor can help us with some recommendations. Payroll is our biggest single expense in the County of Kaua'i. Obviously, our bulk purchasing is the next piece. Both of those will be on our— when I say bulk purchasing, I mean a number of people with pCards. Perhaps we need to put some costs associated in managing that. I am delighted that Parks and Recreation people are here. I just wanted them to also get a picture, as we go forward, of some of the things that we need to resolve for revenue as it relates to income for the County and our Wailua Golf Course and parks' solutions. Let us make sure we understand that the challenge we have is "payroll reporting," not to be confused with payroll costs. Costs are managed through having the appropriate staffing guides and the approved positions that we are budgeted for. It is the reporting, as JoAnn pointed out, of these deviations and getting us to a point that it is going to take maybe a two (2) year step here. Again, I just want to thank everybody. I also want to thank our Staff for their work; Scott, Yvette, Codie, and Jade all here. Others here as well; thank you and our association of getting this done. Watch in the first quarter and see if we will have some communications and we will have some individual

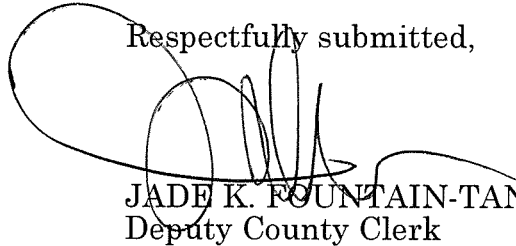
discussions on some of the pieces that really came up today that we need to continue to refine. On that note, thank you everyone.

The motion to receive C 2013-377 for the record was then put, and carried by a vote of 5:0:2 (*Mr. Kagawa and Mr. Rapozo were excused*).

ADJOURNMENT:

There being no further business, the meeting was adjourned at 11:10 a.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Jade K. Fountain-Tanigawa', is written over the printed name and title.

JADE K. FOUNTAIN-TANIGAWA
Deputy County Clerk

:cy